



**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – Cooperative Low Incidence Fund.....	24
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – MRDD/Mental Health Fund	25
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – Miscellaneous State Grants Fund	26
Statement of Fiduciary Net Assets – Fiduciary Funds.....	27
Notes to the Basic Financial Statements	29
Schedule of Federal Awards Receipts and Expenditures.....	57
Notes to the Schedule of Federal Awards Receipts and Expenditures	58
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	59
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and o Internal Control Over Compliance in Accordance with OMB Circular A-133	61
Schedule of Findings - <i>OMB Circular A-133 §.505</i>	63
Schedule of Prior Audit Findings and Questioned Costs - <i>OMB Circular A-133 §.315(b)</i>	64

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Central Ohio Educational Service Center, Scioto County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparisons for the General, Cooperative Low Incidence, MRDD/Mental Health and Miscellaneous State Grants Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2006, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

April 18, 2006

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of the South Central Ohio Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

In total, net assets increased \$87,742, and is an insignificant change from the prior fiscal year.

General revenues accounted for \$1,260,622 or 17 percent of total revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$6,122,168 or 83 percent of total revenues of \$7,382,790.

The School District had \$7,295,048 in expenses related to governmental activities; \$6,122,168 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily grants and entitlements) of \$1,260,622 were adequate to provide for these programs.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the South Central Ohio Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's major funds with all other non-major funds presented in total in one column. The most significant funds for the South Central Ohio Educational Service Center are the General Fund and the Cooperative Low Incidence, MRDD / Mental Health, and Miscellaneous State Grants Special Revenue Funds.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Reporting the Educational Service Center as a Whole

One of the most important questions asked about the Educational Service Center is “How did we do financially during 2005?” The Statement of Net Assets and the Statement of Activities, which appear first in the Educational Service Center’s financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center’s net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center has only one kind of activity:

- Governmental Activities – All of the Educational Service Center’s educational programs and services are reported here including instruction and support services which include operation and maintenance of plant and pupil transportation.

Reporting the Educational Service Center’s Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center’s major funds begins on page 9. Fund financial statements provide detailed information about the Educational Service Center’s major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center’s most significant funds.

Governmental Funds – Most of the Educational Service Center’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statements of Activities) and governmental funds is reconciled in the financial statements.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Fiduciary Funds – The Educational Service Center’s fiduciary funds are agency funds. All of the Educational Service Center’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the Educational Service Center’s other financial statements because the Educational Service Center cannot use these assets to finance its operations. Fiduciary funds use the accrual basis of accounting.

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center’s net assets for 2005 and 2004:

Table 1
Net Assets

	<u>Governmental Activities</u>		Increase
	2005	2004	(Decrease)
Assets			
Current Assets	\$1,609,341	\$1,617,416	(\$8,075)
Capital Assets	261,893	294,106	(32,213)
Total Assets	<u>1,871,234</u>	<u>1,911,522</u>	<u>(40,288)</u>
Liabilities			
Long-Term Liabilities	538,328	554,200	(15,872)
Other Liabilities	648,361	760,519	(112,158)
Total Liabilities	<u>1,186,689</u>	<u>1,314,719</u>	<u>(128,030)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	181,053	186,632	(5,579)
Restricted	497,703	450,819	46,884
Unrestricted	5,789	(40,648)	46,437
Total Net Assets	<u>\$684,545</u>	<u>\$596,803</u>	<u>\$87,742</u>

Total assets decreased by \$40,288. While this decrease of two percent was fairly insignificant overall, a noteworthy decrease occurred within intergovernmental receivables and capital assets of the Educational Service Center. The decrease in intergovernmental receivables relates to the cancellation of several programs for which the Educational Service Center funded through grant money. Due to the cancellations, no reimbursements were outstanding at fiscal year-end, unlike in the prior fiscal year when the Educational Service Center had numerous requests outstanding. Capital assets decreased due to the normal disposition of equipment and current year depreciation on the assets held by the Educational Service Center.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Total liabilities decreased \$128,030, or eight percent. A sizable decrease occurred within accounts payable, which related to the Educational Service Center making payments in a more timely manner than in the prior fiscal year. The decrease in long-term liabilities is primarily the result of capital lease payments being made throughout the fiscal year.

Table 2 shows the changes in net assets for fiscal year 2005 and 2004.

Table 2
Change in Net Assets

	Governmental Activities		Increase/ (Decrease)
	2005	2004	
Revenues			
Program Revenues:			
Charges for Services	\$3,748,033	\$4,069,455	(\$321,422)
Operating Grants and Contributions	2,374,135	2,209,855	164,280
Total Program Revenues	<u>6,122,168</u>	<u>6,279,310</u>	<u>(157,142)</u>
General Revenues:			
Grants and Entitlements not			
Restricted to Specific Programs	1,235,429	1,403,422	(167,993)
Investment Earnings	24,873	13,623	11,250
Miscellaneous	320	750	(430)
Total General Revenues	<u>1,260,622</u>	<u>1,417,795</u>	<u>(157,173)</u>
Total Revenues	<u>\$7,382,790</u>	<u>\$7,697,105</u>	<u>(\$314,315)</u>

(continued)

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2
Change in Net Assets
(Continued)

	Governmental Activities		Increase/ (Decrease)
	2005	2004	
Program Expenses			
Instruction:			
Regular	\$473,735	\$459,959	\$13,776
Special	2,609,864	2,427,749	182,115
Adult/Continuing	149,157	192,544	(43,387)
Support Services:			
Pupils	943,723	969,244	(25,521)
Instructional Staff	1,353,211	1,389,416	(36,205)
Board of Education	64,435	211,776	(147,341)
Administration	1,259,966	1,229,984	29,982
Fiscal	269,031	255,202	13,829
Operation and Maintenance of Plant	49,441	38,061	11,380
Pupil Transportation	24,230	14,349	9,881
Central	96,318	132,919	(36,601)
Interest and Fiscal Charges	1,937	2,439	(502)
Total Expenses	<u>7,295,048</u>	<u>7,323,642</u>	<u>(28,594)</u>
Increase in Net Assets	87,742	373,463	(285,721)
Net Assets Beginning of Year	<u>596,803</u>	<u>223,340</u>	<u>373,463</u>
Net Assets End of Year	<u><u>\$684,545</u></u>	<u><u>\$596,803</u></u>	<u><u>\$87,742</u></u>

Program revenues, which are primarily represented by charges for tuition and fees, as well as restricted intergovernmental revenues were 83 percent of total revenues for fiscal year 2005 and were slightly lower than fiscal year 2004.

As stated previously, general revenues represent 17 percent of the Educational Service Center's total revenues, and of this amount, 98 percent consists of grants and entitlements not restricted to specific programs. Other revenue sources, such as investment earnings, are completely insignificant and are somewhat unpredictable revenue sources.

A comparison of both program revenues and general revenues to the prior fiscal year reveals many changes. The major change occurred within charges for services, which had a decrease of \$321,422. This decrease is due to the loss of charges for services and tuition and fees from the Adams County Ohio Valley School District when the Educational Service Center no longer serviced the School District. While overall not significant in dollar amount, investment earnings demonstrated a considerable increase when compared to the prior year. This increase is due to the Educational Service Center having considerably better interest rates than in the prior year.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Program expenses remained very comparable to the prior fiscal year. The major program expense for governmental activities is instruction, which accounts for 44 percent of all governmental expenses. In further consideration, special instruction had a significant increase in expenses of eight percent, which is the result of additional programs being offered through the Educational Service Center. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation, account for 32 percent of governmental expenses. Administration of the Educational Service Center also represents a significant expense, approximately 17 percent. While not significant to the totals of program expenses, board of education had a substantial decrease from the prior year as a result of a decline in legal fees due to the conclusion of an ongoing lawsuit involving the Educational Service Center's Board of Education.

Table 3 indicates the total costs of services and the net cost of services for governmental activities. The Statement of Activities reflects the cost of program services and the charges for services, grants and contributions offsetting those services. The net cost of services identifies the cost of those services supported by unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
Instruction	\$3,232,756	\$3,080,252	\$481,184	\$357,832
Support Services	4,060,355	4,240,951	689,759	684,061
Interest and Fiscal Charges	1,937	2,439	1,937	2,439
Total Expenses	<u>\$7,295,048</u>	<u>\$7,323,642</u>	<u>\$1,172,880</u>	<u>\$1,044,332</u>

The table demonstrates that program expenses as well as the net costs of providing the programs has remained fairly comparable to the prior fiscal year. A review will further demonstrate that several of the programs receive a significant amount of support from program revenues. The instruction programs, including regular, special, and adult/continuing, receive a significant amount of tuition and fees and State and federal grants for those purposes, as do the support services programs, which include such programs as pupils, instructional staff, and administration.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The Educational Service Center's Funds

Information about the Educational Service Center's most significant funds starts on page 16. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,405,084 and expenditures of \$7,284,892. The net change in fund balance for the year was most significant in the General Fund, an increase of \$175,452. Overall revenues and expenditures decreased proportionately from the prior fiscal year as a result of the Educational Service Center terminating service with the Adams County Ohio Valley School District. Thus, the increase in fund balance was primarily the result of the Educational Service Center providing additional programs and receiving monies from local and State sources to fund these programs.

The Cooperative Low Incidence fund balance decreased \$48,321. This was the result of greater expenditures being incurred to operate the various cooperative programs of the Educational Service Center.

The MRDD / Mental Health fund balance increased \$100,057 due primarily to an increase in State monies.

The Miscellaneous State Grants fund balance decreased \$86,366. This was the primary result of a decrease in State grant funding relating to various Regional Performance grants.

General Fund - Budget Highlights

The Educational Service Center's budget is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2005, the Educational Service Center revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. For the General Fund, there was very little change in revenue amounts reflected in the original and final budget as well as with actual revenues received for the fiscal year.

Final expenditures were budgeted at \$2,671,821 while original expenditures were budgeted at \$2,808,090. The difference of approximately five percent was largely due to a reduction in salaries related to the termination of service to the Adams County Ohio Valley School District.

The overall decrease in fund balance was less than three percent and was determined to be insignificant to the General Fund.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the Educational Service Center had \$261,893 invested in capital assets (net of accumulated depreciation), a decrease of \$32,213, or 11 percent. Additions to capital assets included office furniture and computer and computer related purchases. Disposals for the fiscal year included various computer and educational equipment. For further information regarding the Educational Service Center's capital assets, refer to Note 9 to the basic financial statements.

Debt

At June 30, 2005, the Educational Service Center had outstanding long-term obligations for capital leases for copier equipment in the amount of \$80,840, and for compensated absences. For further information regarding the Educational Service Center's long-term obligations, refer to Notes 14 and 15 to the basic financial statements.

Current Issues

The South Central Ohio Educational Service Center relies heavily on contracts with local and city school districts within the three county area in which it serves. In addition, State foundation per pupil funding and State and federal grants also provide significant sources of revenue to the Educational Service Center.

A major challenge facing educational service centers statewide is the level of funding by the Ohio Department of Education. Since 1997, the Educational Service Center's State per pupil funding has remained unchanged. This level of funding, combined with decreasing enrollment, has required us to expand our service offerings in the areas of fiscal, administrative and other services to various entities. These expanded services will help provide the necessary funds to meet operating expenses in the future.

Another major challenge facing the Educational Service Center is a change in State law that no longer requires the county commissioners to provide rent-free facility space. The change, phased in over a five-year period, will be fully implemented by fiscal year 2007. On July 1, 2005, the Educational Service Center entered into an operating lease with Scudder Realty, LLC. The operating lease was for a portion of the premises known as the "Scudder Administrative Building." The term of the lease is five years, beginning July 1, 2005, and ending June 30, 2010, with payments totaling \$546,275. In order to offset this additional cost, an increase in the local share of per pupil funding was adopted on July 1, 2005 by school districts serviced by the Educational Service Center.

In the past, the local share of per pupil funding was \$10.40; however, this amount increased to \$13.40 beginning in fiscal year 2006.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional information, contact Andrew T. Riehl, Treasurer, South Central Ohio Educational Service Center, 411 Court Street, Room 105, Portsmouth, Ohio 45662, or by calling 740-354-7761.

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South Central Ohio Educational Service Center

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,438,755
Accounts Receivable	945
Accrued Interest Receivable	1,695
Intergovernmental Receivable	167,946
Depreciable Capital Assets, Net	<u>261,893</u>
<i>Total Assets</i>	<u>1,871,234</u>
<u>Liabilities:</u>	
Accounts Payable	9,128
Accrued Wages and Benefits Payable	479,906
Intergovernmental Payable	159,327
Long-Term Liabilities:	
Due Within One Year	139,407
Due in More Than One Year	<u>398,921</u>
<i>Total Liabilities</i>	<u>1,186,689</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	181,053
Restricted for MRDD / Mental Health	233,249
Restricted for Miscellaneous State Grants	108,494
Restricted for Alternative In School Program	83,611
Restricted for Other Purposes	72,349
Unrestricted	<u>5,789</u>
<i>Total Net Assets</i>	<u><u>\$684,545</u></u>

See accompanying notes to the basic financial statements

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South Central Ohio Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$473,735	\$240,785	\$343,730	\$110,780
Special	2,609,864	1,747,441	291,658	(570,765)
Adult/Continuing	149,157	12,832	115,126	(21,199)
Support Services:				
Pupils	943,723	769,517	0	(174,206)
Instructional Staff	1,353,211	951,543	811,477	409,809
Board of Education	64,435	0	0	(64,435)
Administration	1,259,966	25,915	647,970	(586,081)
Fiscal	269,031	0	128,286	(140,745)
Operation and Maintenance of Plant	49,441	0	13,243	(36,198)
Pupil Transportation	24,230	0	22,645	(1,585)
Central	96,318	0	0	(96,318)
Interest and Fiscal Charges	1,937	0	0	(1,937)
Total Governmental Activities	\$7,295,048	\$3,748,033	\$2,374,135	(1,172,880)

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	1,235,429
Investment Earnings	24,873
Miscellaneous	320
Total General Revenues	1,260,622
Change in Net Assets	87,742
Net Assets Beginning of Year - Restated (Note 3)	596,803
Net Assets End of Year	\$684,545

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2005

	General	Cooperative Low Incidence	MRDD / Mental Health
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$729,137	\$116,267	\$236,998
Receivables:			
Accounts	945	0	0
Intergovernmental	67,174	0	0
Accrued Interest	1,695	0	0
Interfund	18,385	0	0
<i>Total Assets</i>	\$817,336	\$116,267	\$236,998
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$7,381	\$122	\$0
Accrued Wages and Benefits Payable	143,814	271,705	2,850
Intergovernmental Payable	35,392	56,592	929
Interfund Payable	0	0	0
Deferred Revenue	0	0	0
<i>Total Liabilities</i>	186,587	328,419	3,779
<u>Fund Balances:</u>			
Reserved for Encumbrances	79,894	5,486	95
Unreserved, Undesignated (Deficit), Reported in:			
General Fund	550,855	0	0
Special Revenue Funds	0	(217,638)	233,124
<i>Total Fund Balances (Deficit)</i>	630,749	(212,152)	233,219
<i>Total Liabilities and Fund Balances</i>	\$817,336	\$116,267	\$236,998

See accompanying notes to the basic financial statements

<u>Miscellaneous State Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$209,036	\$147,317	\$1,438,755
0	0	945
9,517	91,255	167,946
0	0	1,695
0	0	18,385
<u>\$218,553</u>	<u>\$238,572</u>	<u>\$1,627,726</u>

\$176	\$1,449	\$9,128
13,834	47,703	479,906
47,337	19,077	159,327
11,714	6,671	18,385
9,517	22,393	31,910
<u>82,578</u>	<u>97,293</u>	<u>698,656</u>

205,550	41,559	332,584
0	0	550,855
<u>(69,575)</u>	<u>99,720</u>	<u>45,631</u>
<u>135,975</u>	<u>141,279</u>	<u>929,070</u>
<u>\$218,553</u>	<u>\$238,572</u>	<u>\$1,627,726</u>

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South Central Ohio Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances \$929,070

*Amounts reported for governmental activities in the
 Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Capital assets	1,000,884	
Accumulated depreciation	(738,991)	
Total capital assets	261,893	261,893

Some of the Educational Service Center's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Intergovernmental		31,910
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Capital leases	(80,840)	
Compensated absences	(457,488)	
Total liabilities	(538,328)	(538,328)

Net Assets of Governmental Activities \$684,545

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	<u>General</u>	<u>Cooperative Low Incidence</u>	<u>MRDD / Mental Health</u>
<u>Revenues:</u>			
Intergovernmental	\$693,135	\$542,294	\$188,215
Interest	24,873	0	0
Tuition and Fees	1,568,756	1,734,536	0
Customer Sales and Service	412,526	12,905	0
Contributions and Donations	18,030	0	0
Miscellaneous	284	36	0
<i>Total Revenues</i>	<u>2,717,604</u>	<u>2,289,771</u>	<u>188,215</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	129,247	0	0
Special	0	2,338,092	0
Adult/Continuing	32,318	0	0
Support Services:			
Pupils	957,495	0	0
Instructional Staff	613,537	0	56,033
Board of Education	64,435	0	0
Administration	491,748	0	32,125
Fiscal	123,404	0	0
Operation and Maintenance of Plant	36,790	0	0
Pupil Transportation	0	0	0
Central	71,552	0	0
Debt Service:			
Principal Retirement	20,221	0	0
Interest and Fiscal Charges	1,405	0	0
<i>Total Expenditures</i>	<u>2,542,152</u>	<u>2,338,092</u>	<u>88,158</u>
<i>Net Change in Fund Balances</i>	175,452	(48,321)	100,057
<i>Fund Balances (Deficit) Beginning of Year - Restated (Note 3)</i>	<u>455,297</u>	<u>(163,831)</u>	<u>133,162</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>\$630,749</u></u>	<u><u>(\$212,152)</u></u>	<u><u>\$233,219</u></u>

See accompanying notes to the basic financial statements

Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
\$1,111,981	\$1,042,556	\$3,578,181
0	0	24,873
0	14,412	3,317,704
0	40,545	465,976
0	0	18,030
0	0	320
<u>1,111,981</u>	<u>1,097,513</u>	<u>7,405,084</u>
0	354,977	484,224
31,187	230,615	2,599,894
0	118,704	151,022
0	0	957,495
357,273	299,820	1,326,663
0	0	64,435
721,689	19,406	1,264,968
81,253	57,740	262,397
0	12,651	49,441
0	24,230	24,230
0	0	71,552
6,413	0	26,634
532	0	1,937
<u>1,198,347</u>	<u>1,118,143</u>	<u>7,284,892</u>
(86,366)	(20,630)	120,192
<u>222,341</u>	<u>161,909</u>	<u>808,878</u>
<u>\$135,975</u>	<u>\$141,279</u>	<u>\$929,070</u>

South Central Ohio Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$120,192

*Amounts reported for governmental activities in the
 Statement of Activities are different because:*

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital assets additions	77,445	
Depreciation expense	(106,839)	
Excess of capital outlay over depreciation expense		(29,394)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets are removed from the capital assets account in the Statement of Net Assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the Statement of Activities.

Loss on disposal of capital assets		(2,819)
------------------------------------	--	---------

Because some revenues will not be collected for several months after the Educational Service Center's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Intergovernmental	13,353	
Tuition and fees	(646)	
Customer sales and service	(35,001)	
		(22,294)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

Capital lease payments		26,634
------------------------	--	--------

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences payable	(10,762)	
Decrease in intergovernmental payable	6,185	
Total (increase)/decrease		(4,577)

Change in Net Assets of Governmental Activities \$87,742

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Intergovernmental	\$655,000	\$693,135	\$693,135	\$0
Interest	12,000	24,683	24,683	0
Tuition and Fees	1,591,000	1,572,584	1,572,584	0
Customer Sales and Service	399,600	363,735	363,735	0
Contributions and Donations	6,000	18,030	18,030	0
<i>Total Revenues</i>	<u>2,663,600</u>	<u>2,672,167</u>	<u>2,672,167</u>	<u>0</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	183,383	167,572	167,572	0
Adult/Continuing	56,732	28,502	28,502	0
Support Services:				
Pupils	959,878	946,447	946,447	0
Instructional Staff	774,993	663,817	663,817	0
Board of Education	105,063	94,370	94,370	0
Administration	434,078	494,204	494,204	0
Fiscal	127,714	138,062	138,062	0
Operation and Maintenance of Plant	41,829	36,790	36,790	0
Central	124,420	102,057	102,057	0
<i>Total Expenditures</i>	<u>2,808,090</u>	<u>2,671,821</u>	<u>2,671,821</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>(144,490)</u>	<u>346</u>	<u>346</u>	<u>0</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	1,000	284	284	0
Refund of Prior Year Receipts	0	(14,164)	(14,164)	0
Transfers In	0	90,012	0	(90,012)
Transfers Out	0	(90,012)	0	90,012
Advances In	175,000	141,909	141,909	0
Advances Out	(175,000)	(145,127)	(145,127)	0
<i>Total Other Financing Sources (Uses)</i>	<u>1,000</u>	<u>(17,098)</u>	<u>(17,098)</u>	<u>0</u>
Net Change in Fund Balance	(143,490)	(16,752)	(16,752)	0
Fund Balance at Beginning of Year	614,033	614,033	614,033	0
Prior Year Encumbrances Appropriated	<u>49,909</u>	<u>49,909</u>	<u>49,909</u>	<u>0</u>
Fund Balance at End of Year	<u><u>\$520,452</u></u>	<u><u>\$647,190</u></u>	<u><u>\$647,190</u></u>	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
Cooperative Low Incidence Fund
For the Fiscal Year Ended June 30, 2005

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$585,000	\$542,294	\$542,294	\$0
Tuition and Fees	1,792,500	1,734,536	1,734,536	0
Customer Sales and Service	18,000	16,313	16,313	0
<i>Total Revenues</i>	<u>2,395,500</u>	<u>2,293,143</u>	<u>2,293,143</u>	<u>0</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	2,441,653	2,322,951	2,322,951	0
Support Services:				
Instructional Staff	0	67	67	0
<i>Total Expenditures</i>	<u>2,441,653</u>	<u>2,323,018</u>	<u>2,323,018</u>	<u>0</u>
Excess of Revenues Under Expenditures	<u>(46,153)</u>	<u>(29,875)</u>	<u>(29,875)</u>	<u>0</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	0	36	36	0
Advances In	0	35,307	35,307	0
Advances Out	0	(35,307)	(35,307)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>36</u>	<u>36</u>	<u>0</u>
Net Change in Fund Balance	(46,153)	(29,839)	(29,839)	0
Fund Balance at Beginning of Year	134,102	134,102	134,102	0
Prior Year Encumbrances Appropriated	5,756	5,756	5,756	0
Fund Balance at End of Year	<u>\$93,705</u>	<u>\$110,019</u>	<u>\$110,019</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
MRDD / Mental Health Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Intergovernmental	\$150,000	\$188,215	\$188,215	\$0
<u>Expenditures:</u>				
Current:				
Support Services:				
Instructional Staff	0	53,356	53,356	0
Administration	22,930	31,547	31,547	0
<i>Total Expenditures</i>	22,930	84,903	84,903	0
Excess of Revenues Over Expenditures	127,070	103,312	103,312	0
<u>Other Financing Sources (Uses):</u>				
Transfers Out	(150,000)	0	0	0
Advances In	0	32,743	32,743	0
Advances Out	0	(32,743)	(32,743)	0
<i>Total Other Financing Sources (Uses)</i>	(150,000)	0	0	0
Net Change in Fund Balance	(22,930)	103,312	103,312	0
Fund Balance at Beginning of Year	133,591	133,591	133,591	0
Fund Balance at End of Year	<u>\$110,661</u>	<u>\$236,903</u>	<u>\$236,903</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
Miscellaneous State Grants Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Intergovernmental	\$904,850	\$1,167,170	\$1,109,265	(\$57,905)
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	6,628	54,363	54,363	0
Support Services:				
Instructional Staff	429,309	530,654	530,654	0
Administration	661,833	788,808	788,808	0
Fiscal	39,992	74,994	74,994	0
<i>Total Expenditures</i>	<u>1,137,762</u>	<u>1,448,819</u>	<u>1,448,819</u>	<u>0</u>
Excess of Revenues Under Expenditures	<u>(232,912)</u>	<u>(281,649)</u>	<u>(339,554)</u>	<u>(57,905)</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	0	2,716	2,716	0
Refund of Prior Year Receipts	0	(38,804)	(38,804)	0
Advances In	0	53,417	53,417	0
Advances Out	0	(43,960)	(43,960)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(26,631)</u>	<u>(26,631)</u>	<u>0</u>
Net Change in Fund Balance	(232,912)	(308,280)	(366,185)	(57,905)
Fund Balance at Beginning of Year	91,990	91,990	91,990	0
Prior Year Encumbrances Appropriated	<u>277,505</u>	<u>277,505</u>	<u>277,505</u>	<u>0</u>
Fund Balance (Deficit) at End of Year	<u>\$136,583</u>	<u>\$61,215</u>	<u>\$3,310</u>	<u>(\$57,905)</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Agency</u>
<u>Assets:</u>	
Investments in Segregated Accounts	\$7,870,717
Receivables:	
Accrued Interest	<u>29,862</u>
<i>Total Assets</i>	<u><u>\$7,900,579</u></u>
<u>Liabilities:</u>	
Undistributed Monies	<u><u>\$7,900,579</u></u>

See accompanying notes to the basic financial statements

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South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The South Central Ohio Educational Service Center (the “Educational Service Center”) is located in Portsmouth, Ohio, the county seat of Scioto County. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, Wheelersburg, and Manchester Local School Districts, as well as the Scioto County Joint Vocational School District. The Portsmouth City School District is served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The South Central Ohio Educational Service Center operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has 39 classified, 64 certified, and 2 administrative personnel that provide services to the local, city, and joint vocational school districts.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the South Central Ohio Educational Service Center, this includes general operations and student developmental activities.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY *(continued)*

The Educational Service Center participates in seven organizations, four of which are defined as jointly governed organizations, one as a public entity shared risk pool, one as an insurance purchasing pool, and one as a related organization. These organizations are the South Central Ohio Computer Association, the Family and Children First Council of Scioto County, the Coalition of Rural and Appalachian Schools, the Pilasco-Ross Special Education Regional Resource Center, the Scioto County Schools Council, the Ohio School Plan, and the Scioto County Joint Vocational School. Information about these organizations is presented in Notes 16, 17, 18 and 19 to the basic financial statements.

The Educational Service Center serves as fiscal agent for the Family and Children First Council of Scioto County and the Scioto County Schools Council. Accordingly, these organizations are presented as agency funds within the Educational Service Center's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are considered business-type activities. The Educational Service Center, however, has no activities which are reported as business-type.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Statement of Net Assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Educational Service Center fall within two categories, governmental and fiduciary.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The following are the Educational Service Center's major governmental funds:

General Fund - The General Fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Cooperative Low Incidence Fund – The Cooperative Low Incidence Special Revenue Fund is used to account for grant monies and charges for operations which are used for handicapped programs.

MRDD / Mental Health Fund – The MRDD / Mental Health Special Revenue Fund is used to account for receipts and expenditures in conjunction with programs entered into with boards of mental health or mental retardation.

Miscellaneous State Grants Fund – The Miscellaneous State Grants Special Revenue Fund is used to account for various grant monies received from State agencies.

The other governmental funds of the Educational Service Center account for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary funds are agency funds used to account for the Family and Children First Council of Scioto County and the Scioto County Schools Council.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: tuition and fees, grants and accrued interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Budgetary Process

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes.

The Educational Service Center's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The Educational Service Center's Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2005, the Educational Service Center's investments were limited to Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Construction Bonds, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, and State Treasury Asset Reserve of Ohio (STAROhio). Investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$24,873, which includes \$23,403 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

G. Capital Assets

The Educational Service Center's only capital assets are general capital assets. General capital assets are those specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported on the government-wide Statement of Net Assets but are not reported in the fund financial statements.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

All capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Depreciation of furniture, fixtures and equipment is computed using the straight-line method over five to twenty years.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after 10 years of service.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. Capital leases that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

K. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

L. Fund Balance Reserves

The Educational Service Center reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The government-wide Statement of Net Assets reports \$497,703 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include federal and State grants restricted to expenditures for specified purposes.

The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS

For fiscal year 2005, the Educational Service Center has implemented GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*,” GASB Statement No. 46, “*Net Assets Restricted by Enabling Legislation*,” and GASB Technical Bulletin No. 2004-2, “*Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.”

GASB Statement No. 40 addresses disclosure requirements for deposit and investment risks. The implementation of this statement had no effect on the Educational Service Center’s financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the Educational Service Center’s financial statements for fiscal year 2005.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The effect the implementation of GASB Technical Bulletin No. 2004-2 had on the presentation of the financial statements is presented below.

For fiscal year 2005, an error was discovered that related to the overstatement of cash within the General Fund and the Keller McCowen and Musical Festival Endowment Private Purpose Trust Funds. The effect of this change, along with the implementation of GASB Technical Bulletin No. 2004-2 resulted in the following restatements of net assets and fund balances:

	Governmental Activities
Net Assets, December 31, 2004	\$601,929
Restatement of Equity in Pooled Cash and Cash Equivalents	(5,126)
Net Assets, December 31, 2004 as Restated	<u>\$596,803</u>

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS *(continued)*

	General	Cooperative Low Incidence
Fund Balance (Deficit), June 30, 2004	\$460,423	(\$153,700)
Restatement of Equity in Pooled		
Cash and Cash Equivalents	(5,126)	0
Intergovernmental Payable	0	(10,131)
Adjusted Fund Balance (Deficit), June 30, 2004	\$455,297	(\$163,831)
		Private Purpose Trust Funds
Net Assets, December 31, 2004		\$41,889
Restatement of Equity in Pooled Cash and Cash Equivalents		(41,889)
Net Assets, December 31, 2004 as Restated		\$0

NOTE 4 – ACCOUNTABILITY

At June 30, 2005, the Cooperative Low Incidence, Alternative School, EHA Pre-School, and Miscellaneous Federal Grants Special Revenue Funds had deficit fund balances of \$212,152, \$11,385, \$1,942, and \$2,237, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – for the General Fund and the Cooperative Low Incidence, MRDD / Mental Health, and Miscellaneous State Grants Special Revenue Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP Basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund and the Cooperative Low Incidence, MRDD / Mental Health and Miscellaneous State Grants Special Revenue Funds.

Net Change in Fund Balances				
	General	Cooperative Low Incidence	MRDD / Mental Health	Miscellaneous State Grants
GAAP Basis	\$175,452	(\$48,321)	\$100,057	(\$86,366)
Adjustments:				
Revenue Accruals	(45,153)	3,408	0	0
Expenditure Accruals	(61,886)	21,322	3,350	(83,550)
Advances	(3,218)	0	0	9,457
Encumbrances	(81,947)	(6,248)	(95)	(205,726)
Budget Basis	(\$16,752)	(\$29,839)	\$103,312	(\$366,185)

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Educational Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Active monies must be maintained either as cash in the Educational Service Center's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Educational Service Center has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS *(continued)*

8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$3,315,799 of the Educational Service Center's bank balance of \$3,415,799 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments: As of June 30, 2005, the Educational Service Center had the following investments. All of which are held on behalf of the Scioto County Schools Council.

	Fair Value	Investment Maturities (in Years)		Call Date
		Less than 1	1 - 2	
STAROhio	\$644,639	\$644,639	\$0	-----
Federal Home Loan Mortgage Corporation Notes	989,545	497,010	492,535	-----
Federal Home Loan Mortgage Corporation Notes	554,214	0	554,214	11/28/2005
Federal Home Loan Bank Construction Bonds	497,345	497,345	0	9/16/2005
Federal Home Loan Bank Bonds	490,940	0	490,940	7/13/2005
Federal National Mortgage Association Bonds	989,845	989,845	0	-----
Federal National Mortgage Association Bonds	982,500	0	982,500	7/7/2005
Federal National Mortgage Association Bonds	990,940	990,940	0	10/28/2005
Totals	<u>\$6,139,968</u>	<u>\$3,619,779</u>	<u>\$2,520,189</u>	

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS *(continued)*

Interest Rate Risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Educational Service Center's investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to its maturity. Unless matched to a specific obligation or debt of the Educational Service Center, the Educational Service Center will not directly invest in securities maturing more than five years from the date of investment.

Credit Risk: The Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Construction Bonds, Federal Home Loan Bank Call Step Bonds, and Federal National Mortgage Association Bonds carry a rating of AAA by Moody's and Standard and Poor's. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center's investment policy limits investments to those authorized by State statute.

Concentration of Credit Risk: The Educational Service Center places no limit on the amount it may invest in any one issuer. The Educational Service Center's investments in Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Construction Bonds, Federal Home Loan Bank Call Step Bonds, and Federal National Mortgage Association Bonds represents 25.1 percent, 8.1 percent, 8.0 percent, and 48.3 percent, respectively, of the Educational Service Center's total investments. The remaining 10.5 percent is invested in STAROhio.

NOTE 7 - STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local and client school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 7 - STATE AND LOCAL SCHOOL DISTRICT FUNDING *(continued)*

The Educational Service Center also receives funding from the State Department of Education in the amount of \$40.52 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school district an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative educational school districts to provide special education and related services or career-technical educational services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts, intergovernmental, accrued interest and interfund amounts. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Excess Costs	\$67,174
Adult Basic and Literacy Education	42,303
Even Start Program	34,085
SSIO - World Studies Deployment Grant	9,517
Safe and Drug Free Community Service Grant	8,053
Early Childhood Special Education Grant	5,271
Special Education - Access Grant	1,543
Total All Funds	<u><u>\$167,946</u></u>

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	Balance at 6/30/04	Additions	Deductions	Balance at 6/30/05
<u>Governmental Activities</u>				
Furniture, Fixtures and Equipment	\$927,411	\$77,445	(\$3,972)	\$1,000,884
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	<u>(633,305)</u>	<u>(106,839) *</u>	<u>1,153</u>	<u>(738,991)</u>
Governmental Activities				
Capital Assets, Net	<u>\$294,106</u>	<u>(\$29,394)</u>	<u>(\$2,819)</u>	<u>\$261,893</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$8,369
Special	9,544
Adult/Continuing	868
Support Services:	
Pupils	3,122
Instructional Staff	30,076
Administration	27,748
Fiscal	2,906
Central	<u>24,206</u>
Total Depreciation Expense	<u>\$106,839</u>

NOTE 10 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Educational Service Center contracted with Harcum-Schuett for property coverage. Insurance coverage includes the following:

Business Personal Property (\$1,000 deductible)	\$361,600
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During fiscal year 2005, the Educational Service Center participated in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district or educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 18)

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT *(continued)*

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Excess Liability:	
Limit per occurrence/per offense/per accident	\$2,000,000
Aggregate Limit	2,000,000
Underlying Coverage:	
Educational General Liability:	
Each Occurrence Limit	1,000,000
General Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Employer's Liability Stop-Gap:	
Each Accident Limit	1,000,000
Per Disease - Each Employee Limit	1,000,000
Per Disease - Policy Limit	1,000,000
Employee Benefits Liability:	
Each Offense Limit	1,000,000
Aggregate Limit	3,000,000
Educational Legal Liability:	
Errors and Omissions Injury Limit	1,000,000
Errors and Omissions Injury Aggregate Limit	2,000,000
Defense Costs Cap	1,000,000
Automobile Liability:	
Each Accident Limit	1,000,000
Liability Hired - Non-Owned	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from last year.

The Educational Service Center pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The Educational Service Center participates in and is fiscal agent for the Scioto County Schools Council (the "Council"), a public entity shared risk pool (Note 17), consisting of school districts within the County offering medical and dental insurance to their employees. Monthly premiums are paid to the Educational Service Center as fiscal agent, who in turn pays the claims.

The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the Council shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the plan due up to the date of termination plus extended benefits, if any, provided under the plan. Such claims and expenses shall be paid from the funds of the Council.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$129,166, \$105,004, and \$78,036, respectively; 92.89 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System of Ohio

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS *(continued)*

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$426,012, \$391,849, and \$402,287, respectively; 89.90 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$114 made by the Educational Service Center and \$11,478 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$32,770 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at two percent of each employer's SERS salaries. For the 2005 fiscal year, the Educational Service Center paid \$59,883 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Support staff earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified staff upon termination of employment through a written agreement with the Board. Teachers do not earn vacation time.

Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through SunLife.

C. Deferred Compensation

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Business Officials Deferred Compensation Plan. Both plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 - CAPITAL LEASES

In prior years, the Educational Service Center has entered into capitalized leases for furniture, fixtures and equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "*Accounting for Leases*," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease were initially capitalized in the Statement of Net Assets for governmental activities in the amount of \$135,398 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the Statement of Net Assets for governmental activities. Principal payments in fiscal year 2005 totaled \$26,634 and were paid from the General Fund and the Miscellaneous State Grants Special Revenue Fund.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 14 - CAPITAL LEASES *(continued)*

The assets acquired through capital leases as of June 30, 2005, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
Copier Equipment	\$135,398	\$56,214	\$79,184

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

	Fiscal Year Ending June 30,	Total Payments
	2006	\$28,571
	2007	28,571
	2008	26,190
Total		83,332
Less: Amount Representing Interest		(2,492)
Present Value of Net Minimum Lease Payments		\$80,840

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2005 were as follows:

	Amount Outstanding 6/30/04	Additions	Deductions	Amount Outstanding 6/30/05	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Capital Leases Payable	\$107,474	\$0	\$26,634	\$80,840	\$27,179
Compensated Absences	446,726	155,093	144,331	457,488	112,228
Total Governmental Activities					
Long-Term Obligations	\$554,200	\$155,093	\$170,965	\$538,328	\$139,407

Capital leases will be paid from the General Fund and the Miscellaneous State Grants Special Revenue Fund. Compensated absences will be paid from the General Fund and Cooperative Low Incidence, Instructional Media Center, Miscellaneous State Grants, and Adult Basic and Literacy Education Special Revenue Funds.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The Educational Service Center is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The Educational Service Center paid SCOCA \$2,500 for services provided during the fiscal year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

B. Family and Children First Council of Scioto County

The Family and Children First Council of Scioto County (the "Council") is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health Department; the director of the City of Portsmouth Health Department; the director of the Scioto County Department of Human Services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County Board of Mental Retardation and Developmental Disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local school district with the largest number of pupils residing in the County; a school superintendent representing all other school districts in the County; a representative of the City of Portsmouth; the chair of the Scioto County commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start Program; a representative of the County's Early Intervention Collaborative established pursuant to the program; a representative of the federal early intervention program operated under the "Education of the Handicapped Act Amendments of 1988" and at least three individuals representing the interest of families in the County. The Council provides services to disadvantage school age children. The Educational Service Center made no contributions to the Council during fiscal year 2005. Continued existence of the Council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS *(continued)*

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (the “Coalition”) is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various services for school district administrative personnel; gathers data regarding education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Educational Service Center paid \$300 to the Coalition for services provided during the fiscal year.

D. Pilasco-Ross Special Education Regional Resource Center

The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, joint vocational schools, Shawnee State University, and Ross-Pike, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Gary Duty, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council

The Educational Service Center is a member and fiscal agent of the Scioto County Schools Council (the "Council"), a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the Educational Service Center to form the Scioto County Schools Council. The overall objectives of the Council are to formulate and administer programs of health and dental insurance for the benefit of the Council members' employees and their dependents, to obtain lower costs for health and dental coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The Educational Service Center pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the Educational Service Center's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

NOTE 18 – INSURANCE PURCHASING POOL

Ohio School Plan

The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the OSP to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 19 – RELATED ORGANIZATION

Scioto County Joint Vocational School

The Scioto County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a five member Board of Education. Two representatives are appointed by the Portsmouth City School District and three representatives are appointed by the South Central Ohio Educational Service Center. The Scioto County Joint Vocational School exposes students to job training, leading to employment upon graduation from high school. There is no financial benefit/burden relationship between the Scioto County Joint Vocational School and the South Central Ohio Educational Service Center, nor can the South Central Ohio Educational Service Center impose their will on the Scioto County Joint Vocational School.

NOTE 20 - INTERFUND ACTIVITY

As of June 30, 2005, interfund receivables and payables that resulted from various interfund transactions were as follows:

		Receivable
		<u>General</u>
Payable	Miscellaneous State Grants	\$11,714
	Other Governmental Funds	<u>6,671</u>
	Total All Funds	<u><u>\$18,385</u></u>

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

NOTE 21 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 21 – CONTINGENCIES *(continued)*

B. Litigation

The Educational Service Center is currently not party to any pending litigation.

NOTE 22 – SUBSEQUENT EVENTS

On July 1, 2005, the Educational Service Center entered into an operating lease with Scudder Realty, LLC. The operating lease was for a portion of the premises known as the “Scudder Administrative Building.” The term of the lease is for five years, beginning July 1, 2005, and ending June 30, 2010, with payments being made semi-annually.

On October 6, 2005, the Educational Service Center entered into a capital lease with Key Government Finance, Inc. for an IP Telephone System. The lease term is for five years with payments totaling \$88,951, with ownership transferring to the Educational Service Center upon completion of lease payments.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
State Children's Insurance Program	N/A	93.767	\$ 13,610	\$ 13,610
Medical Assistance Program - CAFS	N/A	93.778	<u>170,947</u>	<u>170,947</u>
Total U.S. Department of Health and Human Services			<u>184,557</u>	<u>184,557</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education.</i>				
Adult Education State Grants Program	ABS1-2004	84.002	26,373	45,982
	ABS1-2005		<u>70,114</u>	<u>105,754</u>
Total Adult Education State Grants Program			96,487	151,736
Special Education Cluster:				
Special Education Grants to States	6BEC-2005	84.027	12,740	12,740
	6BSD-2004-P		26,249	34,976
	6BSD-2005-P		<u>17,207</u>	<u>17,161</u>
Total Special Education Grants to States			56,196	64,877
Special Education - Preschool Grants	PGS1-2004	84.173	103	7,598
	PGS1-2005		<u>54,909</u>	<u>52,400</u>
Total Special Education - Preschool Grants			55,012	59,998
Total Special Education Cluster			111,208	124,875
Safe and Drug Free Schools and Communities	T4S1-2004-P	84.184C	4,192	1,013
	T4S1-2004		3,534	4,599
	T4S1-2005		<u>4,447</u>	<u>7,460</u>
Total Safe and Drug Free Schools and Communities			12,173	13,072
Even Start - State Educational Agencies	EVS1-2005	84.213	272,480	238,668
Twenty-First Century Community Learning Centers	T1S1-2004	84.287	18,051	13,149
	T1S1-2005		<u>350,000</u>	<u>341,608</u>
Total Twenty-first Century Community Learning Centers			368,051	354,757
Total U.S Department of Education			<u>860,399</u>	<u>883,108</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 1,044,956</u>	<u>\$ 1,067,665</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of the Schedule.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A – BASIS OF ACCOUNTING

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Educational Service Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the Educational Service Center contribute non-Federal funds (matching funds) to support the federally-funded programs. The Educational Service Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on this Schedule.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated April 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Educational Service Center's management dated April 18, 2006, we reported an other matter related to noncompliance we deemed immaterial.

South Central Ohio Educational Service Center
Scioto County
Independent Accountant' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 18, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

Compliance

We have audited the compliance of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Educational Service Center's major federal programs. The Educational Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Educational Service Center's compliance with those requirements.

In our opinion, the South Central Ohio Educational Service Center, Scioto County, Ohio complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The Educational Service Center's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Educational Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 18, 2006

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Even Start - State Educational Agencies – CFDA# 84.213 Twenty-First Century Community Learning Centers – CFDA# 84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

There were no findings required to be reported in accordance with GAGAS.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings for Federal Awards.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Noncompliance Citation/Questioned Costs-Allowable Costs/Cost Principles - The ESC charged 72 percent of the Title I Facilitator's salary and 39 percent of another Facilitator's fringe benefits to Title I without the supporting documentation required by OMB Cost Principles Circular A-87.	Yes	N/A
2004-002	Noncompliance Citation/Questioned Costs – Period of Availability – The ESC made cash payments for salaries and related fringe benefits after September 30, 2003, which was the end of the period of availability for Title I	Yes	N/A
2004-003	Noncompliance Citation/Questioned Costs - Allowable Costs/Cost Principles - - The ESC charged \$17,515 of the Assistant Treasurer and \$11,482 of the Finance Clerk's salaries to 21 st Century without the supporting documentation required by OMB Cost Principles Circular A-87.	Yes	N/A



**Auditor of State
Betty Montgomery**

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SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SCIOTO COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 25, 2006**